

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



September 13, 2006

Draft Resolution No. W-4615  
Agenda ID #5991

TO: Parties to Live Oak Springs Water Company's General Rate Increase

This is the draft Resolution of the Water Division. This draft Resolution will not appear on the Commission's agenda for at least 30 days after the date it is mailed. The Commission may act then, or it may postpone action until later.

When the Commission acts on a draft Resolution, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the draft Resolution. An original and two copies of the comments, with a certificate of service, should be submitted to:

Sazedur Rahman  
Water Division, California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
Fax: 415-703-4426

Any comments on the draft Resolution must be received by the Water Division by October 3, 2006. Those submitting comments must serve a copy of their comments on 1) the service list attached to the draft Resolution, 2) all Commissioners, and 3) the Director of the Water Division, on the same date that the comments are submitted to the Water Division.

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft Resolution, a table of authorities and an appendix setting forth the proposed findings and ordering paragraphs. Replies to Comments are due on October 10, 2006.

Comments shall focus on factual, legal or technical errors in the draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Late submitted comments will not be considered.

/s/ KEVIN P. COUGHLAN  
Kevin P. Coughlan  
Director  
Water Division

Enclosures: Draft Resolution W-4615  
Certificate of Service  
Service List

WATER/SNR/jrb

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION NO. W-4615

October 19, 2006

R E S O L U T I O N

**(RES. W-4615), LIVE OAK SPRINGS WATER COMPANY (LIVE OAK).  
ORDER AUTHORIZING A GENERAL RATE INCREASE  
PRODUCING AN ADDITIONAL ANNUAL REVENUE OF \$46,400 OR  
320% IN TEST YEAR 2006.**

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**SUMMARY**

By Draft Advice Letter, filed on February 9, 2006, Live Oak Springs Water Company seeks an increase in rates for its water service to recover increased operational expenses and earn an adequate return on its plant investment. The Water Division (Division) accepted this draft advice letter as complete for filing on June 15, 2006.

For Test Year 2006, this resolution grants an increase in gross annual revenues of \$46,400 or 320% which is estimated to provide a return on rate base of 13%.

**BACKGROUND**

Live Oak, a Class D water utility, has requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase its water rates by \$66,000 or 456% for test year 2006. The purpose of the rate increase is to recover increased operating expenses, comply with the San Diego County Environmental Health Department's water quality requirements and to provide an adequate rate of return on the plant investments. Live Oak's request shows 2006 gross revenues of \$14,487 at present rates increasing to \$80,487 at proposed rates. Live Oak is requesting a rate of return on rate base of 14.0%.

The last general rate case for Live Oak was granted on November 17, 1982 per Resolution (Res.) No. W-3042, which authorized an increase of \$1,820 or 17.9% for test year 1982 with a 10.6% rate of return on rate base of \$2,548. No other rate increase has taken place since 1982.

Live Oak is located in Boulevard, San Diego County. It serves a resort community. The Live Oak system consists of two wells (one is out of operation for necessary work), two

well pumps, one booster pump (to be installed in 2006), three storage tanks, and distributions mains. It serves 98-metered customers: 96 residential each with a 3/4" - meter, one mobile home park with a 2" - meter, and one recreational vehicle park with a 1" -meter.

### **NOTICE AND PROTEST**

A notice of the proposed rate increase was mailed to the customers on May 25, 2006. Several protests were received by the Division. Customers protested mostly about the magnitude of the rate increase and poor management.

A public meeting was held at Live Oak Springs Restaurants, Live Oak Springs, CA on June 27, 2006 at 6:00 P.M. The Division staff, along with the Live Oak manager, conducted the meeting. About 35 customers attended the meeting. Customers protested about the magnitude of the requested rate increase, water quality and the company's record keeping procedures, and they asked questions about water operation matters. Particularly the customers wanted Live Oak to invest in the water infrastructures once it receives authorization for water rate increase. The Division staff explained the rate making process; and, along with the Live Oak manager, addressed customers' concerns.

### **DISCUSSION**

The Division made an independent analysis of Live Oak's operations. Appendix A shows Live Oak's and the Division's estimated summary of earnings at present, proposed, and recommended rates for test year 2006. Live Oak is in agreement with the summary of earnings at the Division's recommended rates shown in Appendix A.

The Division staff reviewed operating revenues and expenses and plant additions. It found that the historical and projected operating expenses and projected plant additions for the test year 2006 to be generally reasonable. However, it took issue with the historical plant additions due to lack of supporting data for the recorded plant amounts. The Division staff made appropriate downward adjustments to the recorded plant amounts where deemed reasonable and prudent.

Live Oak has requested a rate of return of 14.0%. The Division's Audit and Compliance Branch (A&C) recommends a rate of return from 12.75% to 13.75% for a Class D, 100% equity-financed utility. Two methods are available for Division to utilize in the rate-making process: (1) Rate of Return and (2) Rate of Margin. In Res. W-4524 (March 17, 2005), the Commission adopted a revised set of standard practices for determining the profit for Class C and D water utilities using the rate of return on rate base and rate of margin methods. Both methods are to be used. Per D.92-03-093, dated March 31, 1992,

the Division must recommend the method that produces the higher revenues. In the rate of margin method, the utility's return is defined as the sum of its operating and maintenance expenses, depreciation, income and other taxes, multiplied by the rate of margin. This method gives the small water utilities the opportunity to earn a more reasonable and appropriate revenue requirement when the utility has "little rate base". If only the Rate of Return Method was used, a utility with little or no rate base would earn little or no return. A&C has recommended a rate of margin of 25% for Class D water utilities. A comparison of the two methods indicates that the rate of return on rate base method produces a higher return; therefore, the Division recommends the rate of return on rate base method.

Live Oak's present tariff rate structure consists of two schedules: Schedule No. 1, Metered Service, and Schedule No. 2X, Mobile Home Flat Rate Service. However, Live Oak has converted the flat rate service to metered service and proposes to have one metered rate schedule. The rates proposed by the Branch are shown in Appendix B. At the recommended rate of return on rate base the increase in revenue will be \$46,400 or 320% for test year 2006.

At the Division's recommended rates shown in Appendix B, the bill for a 3/4-inch metered residential customer using the system average of 900 cu. ft. of water would increase from \$12.25 to \$50.61 or 313%. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

### **COMPLIANCE**

Live Oak has no outstanding compliance orders from the Commission. However, it is working closely with the San Diego County Environmental Health Department to correct bacterial problems in one of its wells. The utility did not file its annual reports to the Commission for many years. It filed its 2005 annual report with this general rate increase advice letter. The utility must file its future annual reports regularly as required. Also, Live Oak needs to update the following: Preliminary Statement; Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; and 10, Disputed Bills; Forms Nos. 2, Customer's Deposit Receipt; and 3, Bill for Service.

### **COMMENTS**

Pursuant to PU Code Section 311(g)(1), this resolution is mailed to interested parties for a 30-day public review and comment.

### **FINDINGS**

1. The Division's recommended Summary of Earnings shown in Appendix A is reasonable and should be adopted.
2. The rates recommended by the Division (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the Division's recommendations are reasonable and should be adopted.
4. Live Oak Water Company does not maintain its accounting books in accordance with the Commission's Uniform System of Accounts for Class B, C, and D Water Utilities and should be ordered to do so.
5. Live Oak Springs Water Company maintains poor records on its plant additions.
6. Live Oak should be authorized to update the following rules: Preliminary Statement; Rules Nos. 3, Application for Service; 5, Special Information Required on Forms; 7, Deposits; and 10, Disputed Bills; Forms Nos. 2, Customer's Deposit Receipt; and 3, Bill for Service.

**THEREFORE IT IS ORDERED THAT:**

1. Authority is granted under Public Utilities Code Section 454 to Live Oak Springs Water Company to file an advice letter incorporating the summary of earnings and the revised rate Schedule No.1, Metered Service, attached to this resolution as Appendices A and B, respectively, and concurrently cancel its presently effective rate Schedules Nos. 1, Metered Service, and 2X, Mobile Home Flat Rate Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Live Oak Springs Water Company is authorized to increase its annual revenues by \$46,400 or 320% for test year 2006.
3. Live Oak Springs Water Company shall maintain its accounting books in accordance with the Commission's Uniform System of Accounts for Class B, C and D Water Utilities and shall inform the Commission's Water Division that it has done so by November 30, 2006.
4. Live Oak Springs Water Company shall report to the Water Division by January 31, 2007, the description and costs of plant added during 2006.
5. Live Oak Springs Water Company shall update the following rules in its tariff book: Preliminary Statement; Rules Nos. 3, Application for Service; 5, Special Information

Required on Forms; 7, Deposits; and 10, Disputed Bills; Forms Nos. 2, Customer's Deposit Receipt; and 3, Bill for Service.

6. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 19, 2006; the following Commissioners voting favorably thereon:

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STEVE LARSON  
Executive Director

APPENDIX A  
LIVE OAK SPRINGS WATER COMPANY  
SUMMARY OF EARNINGS  
TEST YEAR 2006

<u>Category</u>	<u>Utility Estimated</u>		<u>Branch Estimated</u>		<u>Recommended</u>
	<u>Present</u>	<u>Requested</u>	<u>Present</u>	<u>Requested</u>	
	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>	<u>Rates</u>
<b><u>Operating Revenues:</u></b>					
Flat Rate	735	4,084	735	2,450	2,450
Metered	13,752	76,403	13,752	58,437	58,437
Private Fire Protection	0	0	0	0	0
Total	14,487	80,487	14,487	60,887	60,887
<b><u>Operating Expenses</u></b>					
Purchased Water	0	0	0	0	0
Purchased Power	5,222	5,222	5,222	5,222	5,222
Purchased Chemicals	0	0	0	0	0
Other Volume Related Expenses	1,023	1,023	1,023	1,023	1,023
Employee Labor	0	0	0	0	0
Materials	0	0	0	0	0
Contract Work	1,312	1,312	1,312	1,312	1,312
Water Testing	0	0	0	0	0
Transportation Expense	887	887	887	887	887
Other Plant Maintenance Expense	1,200	1,200	1,200	1,200	1,200
Office Salaries	0	0	0	0	0
Management Salaries	13,000	13,000	13,000	13,000	13,000
Employee Pension and Benefits	0	0	0	0	0
Uncollectibles	0	0	0	0	0
Office Service & Rentals	2,400	2,400	2,400	2,400	2,400
Office Supplies & Expenses	2,618	2,618	2,470	2,470	2,470
Professional Services	1,938	1,938	1,557	1,557	1,557
Insurance	2,400	2,400	2,400	2,400	2,400
Regulatory Commission Exp.	1,000	1,000	1,000	1,000	1,000
General Expenses	0	0	0	0	0
Total Operating Expenses	33,000	33,000	32,471	32,471	32,471
<b><u>Total Deductions</u></b>					
Depreciation Expense	7,111	7,111	7,111	7,831	7,831
Property Taxes	0	0	0	0	0
Interest Expense	11,484	11,484	0	0	0
County X-connection Expenses	749	749	749	749	749
States Income Tax	0	1,582	0	1,753	1,753
Federal Income Tax	0	4,864	0	2,712	2,712
Total Deductions	19,344	25,790	7,860	13,046	13,046
<b>Total Deductions and Expenses</b>	52,344	58,790	40,331	45,517	45,517
<b>Net Revenue</b>	-37,857	21,697	-25,844	15,370	15,370
<b><u>Rate Base:</u></b>					
Average Plant	237,029	237,029	178,764	178,764	178,764
Average Depr. Res.	88,508	88,508	66,142	66,142	66,142
Net Plant	148,521	148,521	112,622	112,622	112,622
Add: Materials	200	200	200	200	200
Add: Supplies/working Cash	6,305	6,305	5,411	5,411	5,411
<b>Rate Base</b>	155,026	155,026	118,233	118,233	118,233
<b>Rate of Return</b>	NA	13.50%	N/A	13.00%	13.00%



**APPENDIX B**  
**Page 1**  
**Live Oak Springs Water Company**

**Schedule No. 1**  
**METERED SERVICE**

**APPLICABILITY**

Applicable to all metered water service.

**TERRITORY**

The unincorporated community of Live Oak Springs , San Diego County.

**RATES**

Quantity Rates:

First 300 cu.ft., per 100 cu.ft.....	\$ 1.90	(I)
Over 300 cu.ft., per 100 cu.ft.....	\$ 2.36	(I)

Service Charge:

For 5/8 x 3/4-inch meter.....	\$ 20.50	(I)
For 3/4-inch meter .....	\$ 30.75	
For 1-inch meter .....	\$ 51.25	
For 1-1/2-inch meter... ..	\$ 102.50	
For 2-inch meter .....	\$ 164.00	(I)

This Service Charge is a readiness-to-serve charge, which is applied to all metered service and to which is added the monthly charge computed at the Quantity Rate.

**SPECIAL CONDITIONS**

1. All bills are subject to the Reimbursement Fee set forth in Schedule No. UF.

**APPENDIX C**  
**Live Oak Springs Water Company**  
**Test Year 2006**

COMPARISON OF RATES:

Service Charge:

	Present Rates	Per Meter Proposed Rates	Percent Increase
For 5/8 x 3/4-inch meter	\$ 6.50	\$ 20.50	215%
For 3/4-inch meter	7.15	30.75	330%
For 1-inch	9.75	51.25	425%
For 1-1/2-inch meter	13.65	102.50	650%
For 2-inch meter	17.55	164.00	834%

Quantity Rate:

First 300 cu.ft., per 100 cu.ft.	\$0.50	\$1.90	280%
Over 300 cu.ft., per 100 cu.ft.	\$0.60	\$2.36	293%

Comparison of a monthly typical bill for residential metered customers with a 5/8 x 3/4 inch is shown below at current rates and recommended rates for test year 2006.

Usage	Present	Recommended	Increase	Percent
0	\$ 7.15	\$ 30.75	\$ 23.60	330%
5	9.85	41.17	31.32	317%
9 Avg.	12.25	50.61	38.36	313%
10	12.85	52.97	40.12	312%
15	15.85	64.77	48.92	309%

**APPENDIX D**  
**Live Oak Springs Water Company**  
Adopted Quantities  
Test Year 2006

Purchased Power	\$5,222
kWh	38,211
Management Salary	\$13,000
Service Connections:	
Metered Size	
5/8 x 3/4 -inch.....	0
3/4-inch .....	96
1-inch .....	1
1-1/2-inch.....	0
2-inch.....	1
Total	<hr/> 98

**INCOME TAX CALCULATIONS**  
Test Year 2006

Operating Revenues	\$60,887
Operating Expenses	\$32,471
Depreciation	\$ 7,831
Taxes Other Than Income (County cross connection fee)	\$ 749
Income Before Taxes	\$19,836
State Tax	\$ 1,753
Federal Tax	\$ 2,712
Net Income	\$15,370

### CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of draft Resolution No. W-4615 on all parties in these filings or their attorneys as shown on the attached list.

Dated September 13, 2006, at San Francisco, California.

/s/ JOSIE R. BABARAN

Josie R. Babaran

### NOTICE

Parties should notify the Water Division, Public Utilities Commission,  
505 Van Ness Avenue, Room 3106, San Francisco, CA 94102,  
of any change of address to insure that they continue to receive documents.  
You must indicate the Resolution number of the service list on which your  
name appears.

SERVICE LIST  
DRAFT RESOLUTION NO. W-4615

Nazar Najor, Manager  
Live Oak Springs Water Company  
PO Box 1241  
Boulevard, CA 91905

Frank B and Associates  
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Santa Paula, CA 93060

Charles Dierkop  
Water Customer  
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